

## Message Text

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ORIGIN EA-09

INFO OCT-01 ISO-00 FEA-01 AGRE-00 CEA-01 CIAE-00 COME-00  
DODE-00 EB-07 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04  
NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04  
ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 /084 R

DRAFTED BY EA/J:DFSMITH:BCL  
APPROVED BY EA/J - WILLIAM C. SHERMAN  
EB RMEYER  
EA - MR. EDMOND (DRAFT)

----- 055465 /15

R 180148Z DEC 76  
FM SECSTATE WASHDC  
TO AMEMBASSY TOKYO

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E.O. 11652:N/A

TAGS:ETRD, JA

SUBJECT: US-JAPAN TRADE RELATIONS: EC RELATIONS, CITRUS  
FUNGICIDES, TRADE BALANCE

1. K. SAITO, DIRECTOR 2ND NORTH AMERICAN AFFAIRS DIVISION,  
MOFA, MET WITH DEP. ASST. EDMOND DECEMBER 17. SMITH  
(EA/J) SAT IN. SAITO STATED THAT WITH RESPECT TO JAPAN-EC  
TRADE ARRANGEMENTS, HE WISHED TO REITERATE ASSURANCES  
GIVEN TO US AT DECEMBER 6-7 CONSULTATIONS THAT JAPAN IN-  
TENDS TO IMPLEMENT ANY MEASURES UNDERTAKEN ON A GLOBAL  
BASIS AND DOES NOT INTEND TO TAKE EXPORT RESTRAINT MEASURES.  
HE ADDED THAT THE JAPANESE CONSIDERED THE US MARKET SO  
IMPORTANT THAT NO ONE WAS THINKING OF JEOPARDIZING IT  
THROUGH MEASURES TO RESOLVE THE EC PROBLEM. JAPAN WOULD  
LOOK VERY CAREFULLY AT THE EFFECT OF ANY MEASURES IT MIGHT  
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TAKE ON MARKETS IN THIRD COUNTRIES. HE EXPRESSED THE HOPE  
THAT US SUSPICIONS ON THIS ACCOUNT HAD BEEN ALLAYED.

2. SAITO SAID THAT THE GOJ WAS SEEKING TO ACCOMMODATE  
WISHES OF THE USG WITH RESPECT TO SEVERAL IMPORT RE-  
STRICTIVE REGULATIONS SUCH AS ON CITRUS FUNGICIDES AND AUTO

APPROVALS. HE STATED THAT SHIRASU WOULD SHORTLY BE PRESENTING HIS OPP RESULTS TO THE MINISTRY OF HEALTH AND WELFARE. MIYAZAWA, HEAD OF FOOD CHEMICAL DIVISION, MHW, HAD INFORMED SAITO THAT AS SOON AS RESULTS HAD BEEN RECEIVED THEY WOULD BE STUDIED AND SUBMITTED TO FSIC. HE REITERATED POINT REFTL THAT CHANGE IN CABINET SHOULD FACILITATE RESOLUTION OF THE PROBLEM. WHILE JAPANESE IMPORTERS SAY THEY ARE NOT HAVING ANY TROUBLE WITH THE FUNGICIDE PRESENTLY USED, SAITO ACKNOWLEDGED THAT THIS VIEW WAS IRRELEVANT TO THE BASIC TRADE ISSUE INVOLVED.

3. MR. EDMOND URGED THAT THESE SPECIFIC IRRITANTS BE CLEARED AWAY AS SOON AS POSSIBLE NOT ONLY FOR THEIR OWN SAKE BUT BECAUSE THEY STIRRED UP EMOTIONS THAT THREATEN TO COMPLICATE BROADER TRADE ISSUES BETWEEN THE TWO COUNTRIES. WHILE HE DID NOT WISH TO GIVE UNDUE ATTENTION TO BILATERAL TRADE BALANCES, THERE IS BROAD CONCERN IN THE US ABOUT THE LARGE INCREASE IN THE DEFICIT. EDMOND SAID HE COULD NOT PREDICT THE ECONOMIC POLICIES OF THE NEXT US ADMINISTRATION, BUT IT NOW APPEARS LIKELY THAT SIGNIFICANT STEPS WOULD BE TAKEN TO STIMULATE THE ECONOMY. EDMOND NOTED FUKUDA HAS CONSISTENTLY TENDED TO PLACE A HIGHER PRIORITY ON THE STRUGGLE AGAINST INFLATION THAN ON STIMULATION OF THE ECONOMY. IF HE SHOULD BECOME PRIME MINISTER AND SHOULD PURSUE A RATHER CONSERVATIVE POLICY ON STIMULATING THE ECONOMY IN 1977, RELATIVE TO THE USG, THE BILATERAL DEFICIT COULD GROW EVEN WORSE, GENERATING A VERY SERIOUS OUTCRY IN US. HE EXPRESSED THE HOPE THAT THIS CONSIDERATION WOULD BE A FACTOR IN GOJ BUDGET DELIBERATIONS AND ENCOURAGED SAITO TO MENTION THIS TO HIS LIMITED OFFICIAL USE

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COUNTERPARTS IN THE MINISTRY OF FINANCE.

4. SAITO ASKED WHETHER THERE WAS REAL CONCERN IN USG CIRCLES ABOUT THE TRADE DEFICIT. WHEN INFORMED THAT THERE WAS, SAITO SAID THAT THERE WAS GROWING AWARENESS IN JAPAN THAT SOMETHING MUST BE DONE TO IMPROVE THE DOMESTIC ECONOMY. HE SAID THAT EXPORTS OF AUTOMOBILES AND COLOR TELEVISIONS HAD BEEN EXCEPTIONALLY HIGH DURING 1976 AND WOULD BE MUCH LESS EXPANSIVE IN THE COMING YEAR. HE ACKNOWLEDGED THAT GOJ PREDICTIONS OF EXPANDING IMPORTS HAD NOT BEEN BORNE OUT IN THE PAST. SMITH POINTED OUT THAT WHILE RECENT INDICATORS SHOWED SOME LEVELING OFF OF JAPANESE EXPORT GROWTH AND PICKUP IN IMPORTS, THERE WAS NOW MORE SKEPTICISM ABOUT JAPANESE ARGUMENTS ANTICIPATING AN IMPROVEMENT OF THE TRADE BALANCE BECAUSE OF THE EXPERIENCE WITH EARLIER PREDICTIONS. SAITO STATED THAT HE WAS WORRIED THAT IF THE USG SHOULD MAKE REPRESENTATIONS URGING GOJ ACTION TO REDRESS THE TRADE BALANCE, THE GOJ

WOULD HAVE VERY LIMITED FLEXIBILITY TO RESPOND. HE POINTED OUT THAT MAJOR POLICY CHANGES, SUCH AS REMOVAL OF IMPORT BARRIERS AND A CHANGE IN EXCHANGE RATES, ARE NOT AVAILABLE TO JAPANESE POLICY MAKERS AS THEY WERE IN 1971-72.

5. IN CLOSING SAITO REFERRED TO THE SEVERAL INVESTIGATIONS OF JAPANESE IMPORTS NOW UNDER WAY. HE SAID THAT THE GOJ WAS PARTICULARLY CONCERNED ABOUT THE "ESCAPE CLAUSE" CASE ON COLOR TELEVISION, WITH AN ITC DECISION DUE IN MARCH AND POSSIBLE A PRESIDENTIAL DECISION BY MAY. HE INFORMED EDMOND THAT THE GOJ WAS PREPARED TO TALK ABOUT THE PROBLEM WITH THE USG AT ANY TIME. HE STRESSED THAT GOJ MINISTRIES APART FROM MOFA ARE NOW CONSIDERABLY MORE DISPOSED TO DISCUSS TRADE ISSUES WITH THE USG THAN IN THE PAST, AS DEMONSTRATED IN THE RECENT TOKYO TRADE CONSULTATIONS. KISSINGER

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